



RATLOU LOCAL MUNICIPALITY

January 2014

ADJUSTMENT BUDGET

Abbreviations and Acronyms

BPC	Budget Planning Committee
CFO	Chief Financial Officer
MM	Municipal Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DoRA	Division of Revenue Act
EE	Employment Equity
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	General Recognised Accounting Practice
HR	Human Resources
IDP	Integrated Development Strategy
IT	Information Technology
km	kilometre
m	million
GFS	Government Financial Statistics
KPA	Key Performance Area
KPI	Key Performance Indicator
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MOU	Memorandum of Understanding
FMG	Finance Management Grant
MSIG	Municipal Systems Improvement Grant
MIG	Municipal Infrastructure Grant
RHIG	Rural Household Infrastructure Grant

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PART 1 – ADJUSTMENT BUDGET

1.1 Executive Summary

The application of sound financial management principles for the compilation of Ratlou Local Municipality financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

Ratlou Local Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and „nice to have“ items.

The municipality has embarked on implementing revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 51, 54,58,66 ,67 were used to guide the compilation of the 2013/14 MTREF.

The main challenges experienced during the compilation of the 2013/14 MTREF can be summarised as follows:

- The municipality is a rural municipality which does not have services from which revenue will be raised.
- The municipality is dependent on grants which sometimes are not transferred as expected due to conditional grants which are not spent.
- Other services are not provided by the municipality due to limited resources.

The Municipality Finance Management Act, Section 72 requires of the Accounting Officer to assess the performance during the first half of the financial year taking into consideration, among others, section 71 reports ; SDBIP targets and performance indicators; past year annual report and submit the report to the mayor; national treasury and the provincial treasury.

The Accounting officer must, as part of the review (a) make recommendations as to whether adjustment budget is needed; and (b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.

Section 28 of the MFMA states that an adjustment budgets (a) must adjust revenue and expenditure estimates downwards if there is material under collection of revenue during the current year; (b) may appropriate additional revenues that have become available.....; (d) may authorise the utilisation of projected savings in one vote towards spending under another vote; (e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen; (f) may correct any errors in the annual budget; and (g) may provide for any other expenditure within a prescribed framework.

In view of the aforementioned, the following tables are a consolidated overview of the proposed 2013/14 Revised Budget

Description	Approved Annual Budget	Total Adjusts	Total Adjusted Budget
Total Revenue	84 507 000	16 209 000	103 716 000
Total Operating Expenditure	79 967 000	27 068 000	107 035 000
Surplus/ Deficit	4 540 000	(7 859 000)	(3 319 000)
Capital Transfers	33 211 000	5 592 000	34 263 000

The Total Adjusted Budget for the municipality for **2013/14** is **R 148 188 591**. This amount is as a result of increasing our Annual Budget by an amount of **R 35 010 591** from an Approved Annual Budget of **R 113 178 000** consisting of both Opex and Capex. The Total operating adjusted budget is **R 107 035 000** and total adjusted capital budget is **R 41 153 000**. This adjusted capital budget is funded by the capital conditional grant as gazetted in DORA, approved roll over, savings in equitable share and own revenue raised.

Total Revenue is all operating revenue as gazetted in DORA and the own revenue raised by the municipality including all funds that were received after the approval of Annual budget.

OPERATING REVENUE BUDGET

Table 1: Revenue: Financial performance

NW381 Ratlou - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) -

Description	Ref	Budget Year 2013/14									Budget Year +1 2014/15	Budget Year +2 2015/16
		Original Budget	Prior Adjusted 3	Accum. Funds 4	Multi-year capital 5	Unfore. Unavoid. 6	Nat. or Prov. Govt 7	Other Adjusts. 8	Total Adjusts. 9	Adjusted Budget 10	Adjusted Budget	Adjusted Budget
R thousands	1	A	A1	B	C	D	E	F	G	H		
Revenue By Source												
Property rates	2	3 310	-	-	-	-	-	-	-	3 310	2 250	3 000
Property rates - penalties & collection charges												
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - other												
Rental of facilities and equipment		1 200								1 200	1 350	1 400
Interest earned - external investments		1 300						-		1 300	1 350	1 400
Interest earned - outstanding debtors												
Dividends received												
Fines												
Licences and permits												
Agency services												
Transfers recognised - operating		78 447						1 265	1 265	79 712	86 281	105 220
Other revenue	2	250	-	-	-	-	-	17 738	17 738	17 988	300	400
Gains on disposal of PPE		-						206	206	206		
Total Revenue (excluding capital transfers and contributions)		84 507	-	-	-	-	-	19 209	19 209	103 716	91 531	111 420

The municipality is solidly grants dependant. As a rural municipality, Ratlou has no budget for service charges. Municipality is not providing services currently.

Property Rates Revenue

The municipality have projected to bill an amount of R 3 .3m for property rate which focuses on farms only. This can be regarded as the main revenue item for the municipality. The collection for the current year is low. The municipality have budgeted for the difference between the billing and actual collection under expenditure as debt impairment. The municipality is in the process of developing revenue enhancement strategy, and have appointed a service provider for revenue collection. The municipality is in process of correcting and billing public works for public infrastructure and hope to collect better for the budget year.

Transfers Recognised

The table above indicates that the municipality is solidly grant dependant as it constitutes 92% of the total operating budget.

The allocation is as gazetted in DoRA 2013 with the following breakdown taking note that they are only operating transfers;

DISCRIBTION	AMOUNT
Equitable Share	73 777 000
Finance Management Grant	1 650 000
Municipal Systems Improvement Grant	890 000
Expanded Public works Programme	1 080 000
Library Grants (from Sports, Arts & Culture)	1 050 000

No adjustment have been made to all the above grants except that the municipality have adjusted its grants by a further **R 1 .3m** as expected from Kalgold Mine as per memorandum of outstanding (MoU).

Rental of facilities

The prior year's performance have indicated that there is a need to increase the budget from **R950** (2012/13) to **R1.2m** (2013/14). The municipality is therefore expecting to collect 100%. No adjustment has been made in this regard.

Interest on investment

Interest on investment is projected to stay the same as in the annual budget.

Other Revenue

The other revenue was initially budgeted at R250 000 and is increased through an adjustment budget by R1 042 127 which is a surplus from previous years. The other revenue constituted also of the Vat Returns received during the year. The municipality is projecting to raise the R250 for rental of facilities from sale of tenders, hiring of halls, hiring of graders etc.

Gains on disposal of PPE

The municipality have adjusted the budget with an amount of **R 206** as income on sale of the municipality's assets.

OPERATING EXPENDITURE BUDGET

TABLE 2: Expenditure: Financial Performance

Expenditure By Type												
Employee related costs	34 235	-	-	-	-	-	2 256	2 256	36 491	34 235	39 931	
Remuneration of councillors	8 450						50	50	8 500	9 126	9 856	
Debt impairment	3 010						-	-	3 010	3 311	3 642	
Depreciation & asset impairment	1 200	-	-	-	-	-	6 000	6 000	7 200	1 320	1 452	
Finance charges							80	80	80	-	-	
Bulk purchases	-	-	-	-	-	-	-	-	-	-	-	
Other materials	990						5 557	5 557	6 547	1 088	1 196	
Contracted services	5 310	-	-	-	-	-	(310)	(310)	5 000	5 795	6 314	
Transfers and grants	-						-	-	-			
Other expenditure	26 773	-	-	-	-	-	13 435	13 435	40 207	32 747	33 847	
Loss on disposal of PPE							-	-	-			
Total Expenditure	79 967	-	-	-	-	-	27 068	27 068	107 035	87 621	96 238	
Surplus/(Deficit)	4 540	-	-	-	-	-	(7 859)	(7 859)	(3 319)	3 910	15 182	
Transfers recognised - capital	28 671						5 592	5 592	34 263	31 982	33 354	
Contributions							-	-	-			
Contributed assets	-						-	-	-			
Surplus/(Deficit) before taxation	33 211	-	-	-	-	-	(2 267)	(2 267)	30 944	35 892	48 536	
Taxation							-	-	-			
Surplus/(Deficit) after taxation	33 211	-	-	-	-	-	(2 267)	(2 267)	30 944	35 892	48 536	
Attributable to minorities							-	-	-			
Surplus/(Deficit) attributable to municipality	33 211	-	-	-	-	-	(2 267)	(2 267)	30 944	35 892	48 536	
Share of surplus/ (deficit) of associate							-	-	-			
Surplus/ (Deficit) for the year	33 211	-	-	-	-	-	(2 267)	(2 267)	30 944	35 892	48 536	

The municipality's operating expenditure budget increased from **R 79.9m** to **R 107 m**. This increase is attributed to employee related cost and other expenditure. The municipality have budgeted for debt impairment and depreciation as indicated in the table above.

Employee related costs

Employee related costs are increased through an adjustment budget to accommodate new employees during the year.

Debt impairment

For the 2013/14 MTREF the municipality budgeted for debt impairment, this is an indication that the municipality has challenges in collecting especially on property rates as stated earlier. The municipality is struggling to collect on property rates.

Depreciation

Depreciation after adjusted is projected at **R 7.2m**

Finance Charges

Expenditure on this item is expected to stay the same as in the municipality's Annual Budget.

Contracted services

Contracted services are reduced from **R 5.3** to **R 5 m**

Other materials

Other materials are increased from **R 990** to **R 5 m**

Other expenditure

Other expenditure is also projected to increase from **R 26.7m** to **R40.1m**.

CAPITAL BUDGET

The municipality have originally budgeted for MIG projects to the value of **R24.6 m** and **RHIG** to the value of **R4 m** as gazetted in DORA 2013 and have also used saving from equitable share of **R4.5 m** as funding to other assets the municipality is intending to acquire for the budget year. The municipality will use MIG allocation of **R24.6m** to construct street lights, library, Taxi rank, roads etc. The **R 4 m** in the annual budget of the municipality is withdrawn from the municipality's budget as it is an allocation in kind which will only be transferred to the District municipality and hence a decrease of **R4 m** for capital transfers. The municipality will have to trade in some vehicles and also to purchase new vehicles and to acquire other asset as necessary for the municipal offices. There is an increase on capital budget from **R 33.2 m** to **R 41.2 m**.

All other tables and supporting tables will be sent which are summarised ab

RATLOU LOCAL MUNICIPALITY

ADJUSTMENT BUDGET FOR THE 2013 – 2014 FINANCIAL YEAR AND BUDGET RELATED POLICY FOR RATLOU LOCAL MUNICIPALITY

PURPOSE

To seek approval of the budget adjustment as a consequence of the mid - year budget and performance review.

Background

The Municipality Finance Management Act, Section 72 requires of the Accounting Officer to assess the performance during the first half of the financial year taking into consideration, among others, section 71 reports ; SDBIP targets and performance indicators; past year annual report and submit the report to the mayor; national treasury and the provincial treasury.

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ADJUSTMENT BUDGET BREAKDOWN FOR VARIOUS DEPARTMENTS IS SHOWN IN THE TABLE BELOW:

DEPARTMENT	ANNUAL BUDJGET	ADJUSTMENT BUDGET	FUNDING SOURCE
Office of the Mayor	10 398 710.32	10 589 459.59	VAT Returns
Office of the Speaker	9 790 560.30	10 434 701.39	VAT Returns
Office of the Accounting Officer	9 388 585.08	15 966 655.27	VAT Returns
Budget and Treasury	14 903 628.12	22 686 340.68	VAT Returns and

			Proceeds on sale of assets.
Planning and Development /Economic	35 473 347.36	50 994 559.10	VAT Returns, Roll over and Surplus.
Planning and Development / Town Planning	7 654 707.29	9 336 394.61	VAT Returns, Kalgold funding and Surplus
Library / Community and Services	4 199 803.63	4 106 397.38	Shifting of funds
Corporate Services	16 937 067.45	19 409 596.71	VAT Returns
Community and Services	4 431 590.44	4 664 486.34	VAT Returns
TOTAL	113 177 999.99	148 188 591.06	

Adjustment to budget assumptions

Annual Budget is adjusted upwards by a total of **R 35 010 591.07** from an approved annual budget of **R 113 178 000** to an Adjustment Budget of **R 148 188 591.06** due to the following sources of funding ;

- Grant from Harmony Kalgold mine - **R 1 265 000.00**
- Proceeds on sale of assets - **R 205 717.00**
- VAT Returns - **R16 695 870.06**
- Surplus - **R 1 042 127.00**
- MIG & NMMDMG Roll over - **R 9 591 877.00** -

The municipality's capital budget is reduced with an amount of **R 4 000 000.00** which is an allocation-in-kind which was not supposed to be included in the annual budget as it will be transferred directly to the District Municipality.

Adjustment to budget funding

- The impact of adjustment budget on

- (i) Funding of Operating and Capital Expenditure will increase
- (ii) The reserves will decrease by a surplus adjusted amount of **R 13 141 575.00** as disclosed in the Annual Financial Statement.
- (iii) The financial sustainability of the municipality will be positive

Recommendation:

- a. That Council approved the Adjustment Budget as tabled above for 2013 / 2014 financial year.
- b. That the copy of the Adjustment Budget be sent to National and Provincial Treasury.
- c. That Council adopt the 2 revised budget related policies i.e **Supply Chain Management Policy and Credit Control and Debt Collection Policy.**